

22 November 1988

MEMORANDUM FOR: Director of Central Intelligence

Deputy Director of Central Intelligence

EA/DDCI

FROM:

EA/DCI

25X 25X1

SUBJECT:

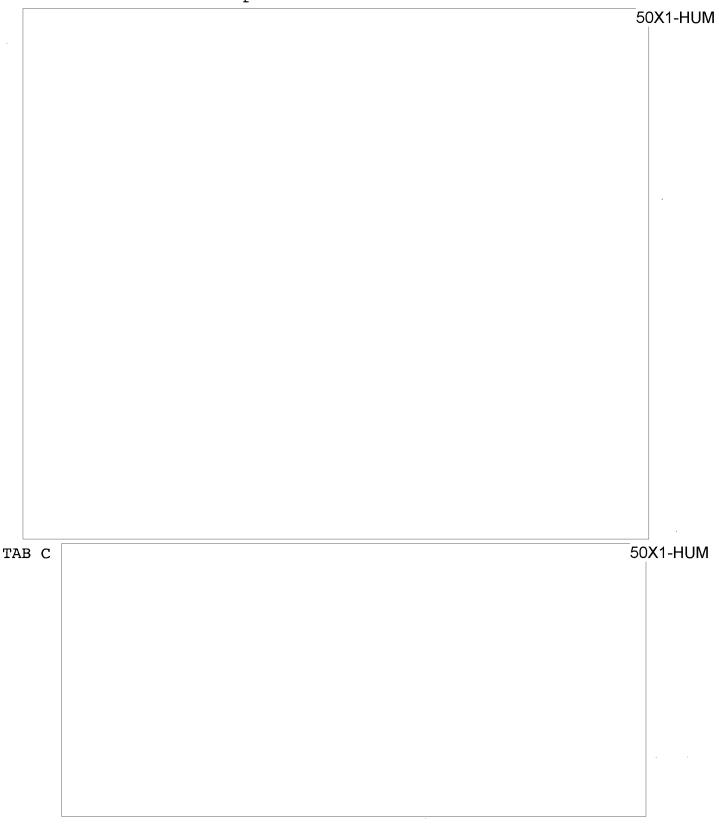
Meeting with Secretary of State Shultz, and Messrs. Whitehead, Armacost, and Abramowitz. 22 November 1988 - 1100 hours - State Dept.

TAB A Panama. The Secretary of State is interested in reviewing the Panamanian situation. The Secretary is likely to ask for your views on whether the Noriega problem can be resolved now. Also, he may ask whether the Intelligence Oversight Committees will go along with Panama III at this point in time.

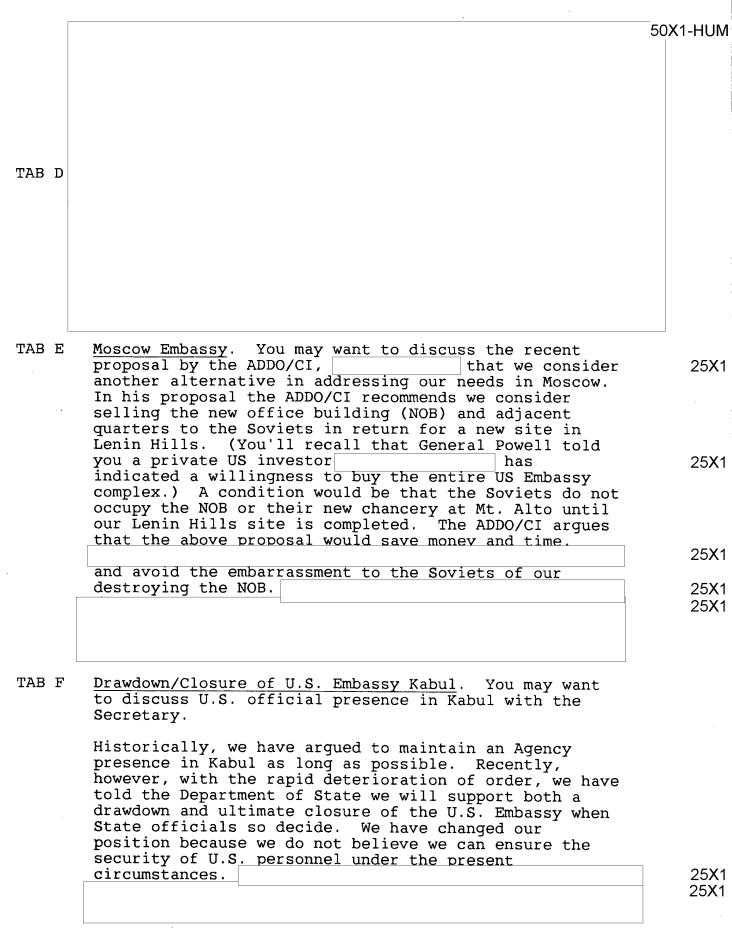
25X1

TAB B Libya: CW Program. You may want to discuss with the Secretary implications of possible actions that could be taken to eliminate the Libyan CW capability. You may wish to inform Secretary Shultz that DI analysts believe Libya would strongly resist any US political initiatives to undermine its chemical warfare program, and almost certainly would retaliate violently in response to a US military strike on the plant. Retaliation probably would be in the form of terrorist attacks against US personnel and facilities. Such

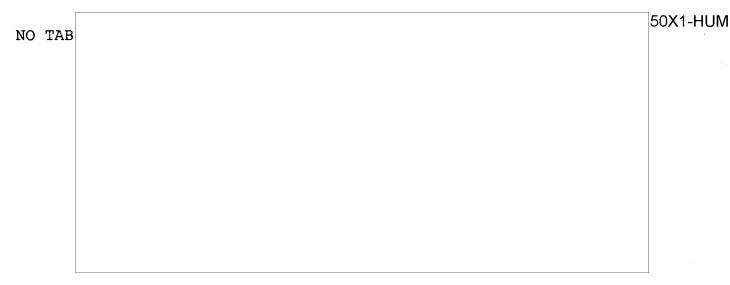
1 TOP SECRET attacks could even be carried out by elite Libyan military units and could include mining sea lanes in the Mediterranean or placing limpet mines on US vessels in Mediterranean ports.



2 TOP SECRET



3 TOP SECRET



NO TAB Biological Warfare: Possible Request for Paper. The Secretary continues to be interested in biological warfare and may ask you to initiate a Community study looking at biological warfare programs around the world. You may wish to tell him that the DI's Office of Scientific and Weapons Research (OSWR) is presently concluding work on an Intelligence Assessment addressing this issue and entitled Hidden Players in a Death Game: Biological Warfare Proliferation Worldwide. This paper could well be printed within the next month or so.

The following items are provided for your information in case the subjects arise during your meeting.

TAB G Afghanistan: Recent Developments. Over the last two weeks, the Soviets have continued to rely on air power to support regime forces and to keep the insurgents at bay. Despite threats to remain in Afghanistan beyond 15 February, the Soviets continue to plan and prepare for withdrawal. In particular, Soviet media last week provided assurances from government officials that the troops will be home on schedule. As for the recent Soviet campaign to step up military pressure on the insurgents, DI analysts believe pressure could be expanded to include aircraft and missile attacks against insurgent supply depots inside Pakistan. believe, however, the Soviets (or Afghanistan regime) are unlikely to initiate more than just a few such strikes because they fear the potential international backlash that could result. ___ an explosion--which destroyed a

25X1 25X1 small gun and ammunition store—was attributed to a missile by villagers who had never seen or heard anything like it before. He also indicated that the amount of damage described seemed relatively small for a direct hit on a marketplace by a Scud.

You should also know that Soviet Ambassador Vorontsov told our Charge in Kabul on 15 November that details of the Soviet approach to withdrawal and a political solution in Afghanistan would be presented by Gorbachev to American officials in New York. Vorontsov indicated the Soviets wanted the US to help put together an internal political solution in Afghanistan and that if we were unwilling to assist, the Soviets would turn to other parties—he implied such parties would include Iran and Pakistan.

At TAB G are talking points that expand on these issues.

TAB H Iran: Latest Developments. The Secretary may want to discuss continuing factionalism within Iran and the prospects for Iranian rapprochement with the US. DI analysts believe Rafsanjani remains the preeminent political leader in Iran after the Ayatollah, but that he continues to face opposition from radicals including Prime Minister Musavi and Minister of Interior Motashami-Pur. No rival appears sufficiently strong, however, to mount a successful coup, although assassination attempts are possible. As for rapprochement with the US, DI analysts believe it is unlikely Rafsanjani would seek better ties with the US anytime soon.

Attached at Tab H are talking points that expand on these issues.

TAB I Brazil: Pressures for a Coup. The Secretary may want to discuss prospects for a coup in Brazil and the chances that Leonel Brizola would be elected President in next year's (November 1989) Presidential election. Although economic pressures are building in Brazil—it is faced with a severe debt problem and inflation approaching 1,000 percent annually—DI analysts believe the military is not likely to intervene unless worsening social conditions lead to a breakdown of civil order.

that key Brazilian industrialists are sending signals, through ex-President General Geisel, to the military high command that intervention is necessary. Geisel reportedly has firmly rejected the plea, at least for now. As for next year's Presidential election, the deteriorating economy is improving Leonel Brizola's election prospects. He is a leftist long at odds with the military. While it is probably too early to speculate, DI analysts suspect the military would allow Brizola to take office.

5 TOP SECRET

Attached at Tab I are talking points that expand on this issue Also attached for your information is a brief report on Secretary Carlucci's recent trip to Brazil.

25X1

Nicaragua/Honduras: Resettling the Contras. The Secretary may ask you what Honduran leaders believe should be done with the Contras in Honduras and how soon the US can expect pressure to mount to resolve this issue. According to DI analysts, Honduras is growing weary of hosting Nicaraguan insurgents and wants Washington to resettle them and their families in the United States.

Honduran leaders have indicated they are willing to wait until March 1989 for the new US Administration to decide on the specifics of a resettlement program—March 1989 is when the US Humanitarian Aid Program runs out.

25**X**1

Attached are talking points dealing with this issue which provide an update on the Contra situation in Nicaragua—information on resettling the Contras is located on the last page of the talking points.

Declassified in Part - Sanitized Copy Approved for Release 2012/09/19 : CIA-	RDP89G01321R000500140011-1
SECRET	25X1
	25X1
	NESA/AI/M
	25X1
Talking Points for the DCI	
17 November 1988	
The Libyan Chemical Weapons Program: Options for	US Influence
In our judgment, Libya will resist strongly US poli undermine its chemical warfare (CW) program and would r military strike aimed at neutralizing it. Libyan leade publicly that the Rabta Technology Center produces chem agentsclaiming it is a pharmaceutical plantbut has right to possess any type of weapon it chooses.	eact violently to a r Qadhafi has denied ical warfare
Tripoli views a CW capability as essential to ke regional powers also possessing chemical weapons Egypt, Syria, Iraq, Iran, and especially Israel.	including
As in the past, Qadhafi almost certainly will re accusations regarding Libya's CW capability by p and Israeli chemical and nuclear programs.	
We believe a US effort to prevent Libyan use of che opposed to their possessionhas a greater likelihood o	
Washington could quietly but strongly warn Tripo through a senior emissarythat it will not tole of chemical weapons or their transfer to third p such Libyan actions would have grave consequence warning from one or more NATO allies would reinf message.	rate Libyan use arties and that s. A similar
Washington could support overt efforts to mobili international opinion against Libyan CW with a continuous propaganda campaign in the Arab world and Africa the military and terrorist threat posed by Libya weapons.	overt focusing on
Libya is dependent on foreign firms to sustain prod Washington could urge foreign governments, especially W Italy, and Japan, to prevent their companies from conti Libyan program.	est Germany, France,
The United States would have to successfully mob international opinion against the Libyan program option to succeed.	
	25X1
SECRET Declassified in Part - Sanitized Copy Approved for Release 2012/09/19 : CIA-	

Declassified in Part -	Sanitized Copy Appro	oved for Release 2012/09/19	: CIA-RDP89G01321R00050	0140011-1
i contract of the contract of				

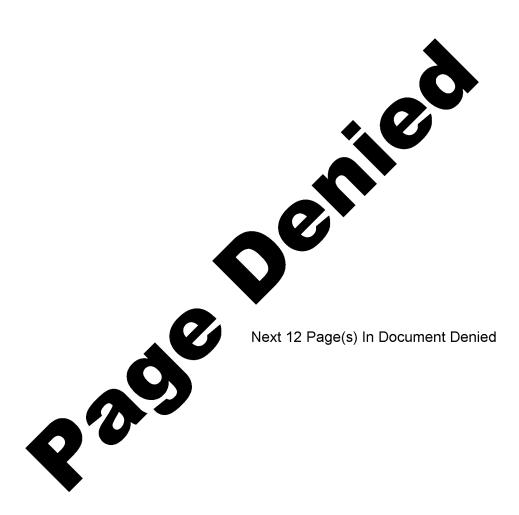
SECRET	

25X1

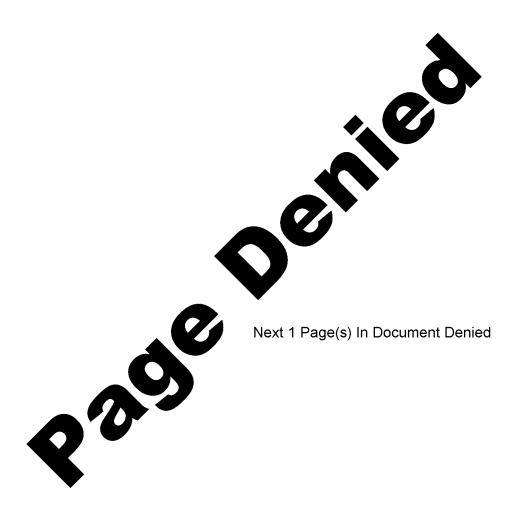
Reaction to US Attack

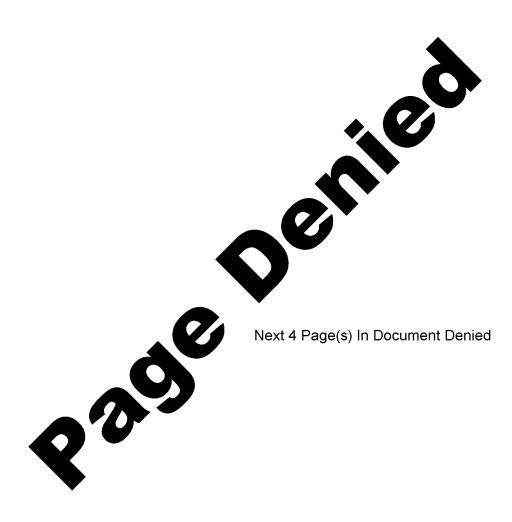
Qadhafi almost certainly would retaliate for a US military strike on Rabta. The most likely form of retaliation would be terrorist attacks against US personnel and facilities, but attacks by elite Libyan military units also are possible.

- --Tripoli could call on several radical groups, such as the Abu Nidal Organization or Japanese Red Army activists, to mount terrorist operations and hide the Libyan hand. Circumstantial evidence strongly suggests that Libya was behind several anti-US attacks this year.
- --Qadhafi has a small cadre of well-trained elite military units that could mount covert attacks against US targets along the Mediterranean littoral. Navy commandos, for example, could attack US ships in port with limpet mines, or mine sea lanes.
- --Either Libyan response would be accompanied by a vigorous diplomatic effort to obtain condemnation of the United States in international fora.



Declassified in Part - Sanitized Copy Approved for Release 2012/09/19 : CIA-RDP89G01321R000500140011-1





Ε

SUBJECT: Talking Points for DDCI 17 November 1988 Meeting with Secretary of State - Moscow New Embassy Building Replacement

--The decision to tear down the New Office Building (NOB) and rebuild will be very costly (the estimates range from \$150-\$300 million) and will take a great deal of time (at least five years).

-- Consideration should be given to the following proposal:

We offer to sell the NOB and the surrounding quarters to the Soviets; they, in turn, give us a new site in Lenin Hills (where most Western embassies are currently being constructed). Once we have completed our embassy and new living quarters around it in Lenin Hills, we turn over the previous NOB and the surrounding apartments to the Soviets; they do not occupy the NOB until our construction in Lenin Hills is completed. They would not occupy their new chancery at Mt. Alto until our new site in Lenin Hills is completed.

- -- The above proposal, if accepted by the Soviets, would achieve several goals:
 - (a) it would save money (deconstruction is very expensive)
 - (b) it would save time

(d) it conceivably would avoid the embarrassment to the Soviets of us tearing down our building

--The argument that we would learn much about Soviet bugging technology during deconstruction is not a very good one. The technology is old and more than likely there is nothing highly sophisticated to be found.

SECRET

Declassified in Part - Sanitized Copy Approved for Release 2012/09/19: CIA-RDP89G01321R000500140011-



SUBJECT: Update on Discussions Concerning Drawdown or Closure

of the U.S. Mission in Kabul

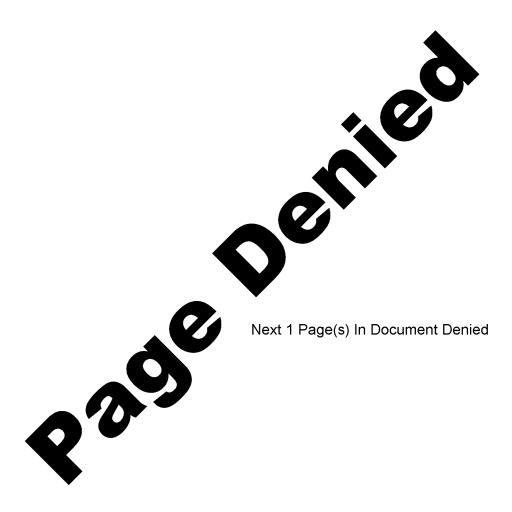
REFERENCE: Talking Points on same subject of 16 November 1988

everyone was leaning towards closure rather than drawdown. NEA Bureau's DAS Howard Schaeffer was tasked to write a decision memorandum for the Secretary of State recommending closure of the Embassy.

The memo will also address what effect the closure of the Embassy in Kabul might have on U.S.- Soviet relations. The point will be made to the Soviets that the closure of the Embassy is being undertaken strictly for security reasons and it does not reflect any hardening of the U.S. position vis a vis Afghanistan. The Soviets will be told that the closure simply reflects our lack of confidence in the Soviet and the Afghan regime's ability to provide security for U.S. Mission personnel in Kabul.



25X1



G

TALKING POINTS FOR THE DCI

Afghanistan: Recent Developments

Over the last two weeks the Soviets have continued to rely on airpower to support regime forces and to keep the insurgents at bay. Soviet ground forces, while mainly occupied defending Soviet positions and lines of communications, did deploy east of Kabul earlier this month to relieve pressure on regime forces.

Despite threats to remain in Afghanistan beyond the 15 February deadline, the Soviets have continued to plan and prepare for withdrawal.

-- According to the commander of Soviet forces in Afghanistan told his senior officers on 25 October that the start of the last phase of withdrawal will be suspended for only "one to two months." He also told them the withdrawal would be completed by 15 February.

concerning meetings between 40th Army officers and members of the Soviet Central Committee in Kabul indicate the Soviets continue to plan to get out on time.

- -- Soviet domestic media have given prominent play recently to assurances that the troops will be home on schedule. Such emphasis would be unlikely if the Soviets intended to stay much beyond 15 February.
- -- The Soviets have prepared an advanced radar at Bagram for travel. Identical radars at Qandahar and Shindand were readied to leave their bases in mid-March, roughly two months before the start of the first phase of withdrawal.

If the current bombing campaign fails to stem growing insurgent military pressure on Soviet forces, however, the Soviets may be forced to bring in additional troops to ensure the safety of their withdrawal.

The resistance continues to increase military pressure on the regime despite the recent Soviet escalation of the air war and Moscow's continuing quest for a political solution.

-- Probably in response to the Soviet announcement suspending their troop withdrawal and the recent air

TOP SECRET

. 25X1

25X1

25X1

activity, the insurgents have increased their pressure on the road north from Kabul and are preparing for attacks on Shindand and Qandahar Airfields.

-- The insurgents also continue to threaten Jalalabad, and have forced the regime to conduct a sweep operation to reopen the road between Jalalabad and the Pakistani border. Kabul's troops recaptured Towr Kham, however, the insurgents continue to contest regime forces for control of major portions of the road between Kabul and Jalalabad.

What is the possibility that the Soviets and the Afghans would attack insurgent facilities in Pakistan?

Moscow could further escalate its current campaign of stepped-up military pressure by using aircraft and missiles they have based in Afghanistan to strike insurgent supply depots inside Pakistan.

- -- The Soviets are unlikely to go beyond a few such strikes, however, both because the international backlash from concerted attacks on Pakistani territory would probably be severe and because the Soviets have hopes that the new government emerging from the Pakistani elections will prove more accommodating.
- Recent claims by Afghan officials that they control the recently delivered Scuds and that the Soviets will soon deliver more advanced weapons to them may have been intended to relieve the Soviets of any direct responsibility for rocket attacks on Pakistan. press reports last week claimed that a Scud missile launched by the Afghan Army struck a Pakistani village killing ten people.

an explosion--which destroyed a small gun and ammunition store--was attributed to a missile by villagers who had never seen or heard anything like it before. He also indicated that the amount of damage described seemed relatively small for a direct hit on a marketplace by a Scud.

2 TOP SECRET

ч

	SECRET
:	
	DI/NESA/PG/I
	Talking Points for the DCI
	21 November 1988
Iran	: Political Situation
	Assembly Speaker Rafsanjani remains the preeminent tical leader in Iran after Ayatollah Khomeini, but anjani faces continuing opposition from some radicals.
	Prominent opponents include Prime Minister Musavi and Minister of Interior Motashami-Pur. Some elements of the Revolutionary Guard also oppose Rafsanjani and Guard members reportedly have tried to assassinate him.
	We believe the radicals would have difficulty mounting a successful coup. No rival seems to have sufficient support within the factionalized Guard. We believe that assassination attempts will continue to be a serious threat, however.
	Rafsanjani's opponents will try to undercut or block his efforts to improve relations with the West and to seek foreign assistance in rebuilding the economy.
{	Rafsanjani is considering running for the Presidency in next August's elections to help consolidate his hold on power. (As President, Rafsanjani could nominate a new prime minister and cabinet, and would head the Supreme Defense Council, thus significantly increasing his ability to shape economic and military policy.)
tren	Rafsanjani seems strong enough for now to continue the d toward a pragmatic foreign policy.
	Rafsanjani has gained Khomeini's public endorsement of his policies and is skilled at exploiting division among his opponents.
	Rafsanjani's future strength will ultimately depend on his ability to negotiate a peace settlement with Iraq that most Iranians consider honorable and to ensure that economic recovery meets public expectations.

Declassified in Part - Sanitized Copy Approved for Release 2012/09/19 : CIA-RDP89G01321R000500140011-1	l 25 X 1
Iran and United States	
Rafsanjani probably believes Iran would benefit from improved relations with the US, but strong opposition by many in the leadership make it unlikely the Speaker will seek better ties any time soon.	į
most of Rafsanjani's supporters believe that Iran should not seek better ties until it can deal from a position of strength. Most radicals still view relations with the United States as a betrayal of the revolution and will try to use any such	25X1 25X1
wove to undermine Rafsanjani. US Hostages. We believe that Iran probably will continue to use the hostages as bargaining chips to gain concessions from the US. We do not believe Iran can unilaterally order the release of the hostages but must bargain with the hostage-holders.	23/1
Iran at some point might try to secure the release of one or more US hostages to tempt the US into dealing for the remaining captives.	
Iranian leaders are unlikely in the near future to agree on releasing all the hostages unless Washington meets Iran's demand for the return of assets frozen in the US.	25 X 1

	ALA/SCD/East
	21 November 1988
TALKING POINTS FOR THE DC	:I
BRAZIL: THE ECONOMY AND PROSPECTS	FOD A COUD
DIVIDITE. THE BEONOMI AND INOSITECTS	FOR A COOL
ommunity have become so worried by the rapid of inflation that they are talking about a coup. Oncerned about the economy, but we see little ilitaryburned badly by its experience with arly 1980scan be convinced to intervene unloaditions lead to a breakdown of civil order.	We, too, are likelihood that the the economy in the ess worsening social
Growing Economic Problems	
Brazil's economy, now laboring under a ma oreign debt, has been a major political issue ilitary gave way to a civilian government in	e ever since the
	been characterized by has been preoccupied

- -- Inflation last month hit a record 27 percent, and is expected to surpass 900 percent for 1988 as a whole, a sharp rise from last year's already high 365 percent.
- -- Despite monthly cost-of-living adjustments for salaries, wage earners have seen their real incomes erode about 30 percent so far this year. Strikes--some violent--have nearly paralyzed key sectors of the economy, including fuel refining and distribution, steel production and electricity generation.

A recently announced agreement between some business and labor leaders to limit price increases for 60 days, dubbed "the social pact", is unlikely to prove successful in dampening inflationary expectations.

25**X**1

		SECRET
,		
		The Sarney government has yet to make its contribution sharp budget cutsto the pact. While the Finance Minister is proposing serious measures, consistent support from Sarney in implementing politically painful cutbacks is far from certain.
		Even if he agrees to the proposals, Brazil's new Constitution has stripped him of his decree powers, and he will need to obtain congressional support for any budget cutswhich is by no means assured.
	anci	the meantime, the pact has stabilized previously jittery al markets and alleviated at least temporarily the specter of flation.
		Even so, Brazil's economy has a long way to go to halt its downward slide, and the prospects that the Sarney government will make the hard choices necessary to put it on the right track are practically nil.
	****	The best that can be hoped for is that things will muddle through until a new president takes over in 1990. Even then, solutions will not be easy.
Ī	Mili	tary Concerns
elec	elwo ctio	nomic deterioration, combined with recent violence at a rkers strike and the leftward turn in last week's municipal ns, has set off alarm bells in some military circles and heir allies in the business sector.
		senior officers are involved with businessmen and bankers in contingency planning for possible military intervention.
		industrialists in Sao Paulo are sending signalsthrough expresident General Geiselto the high command that intervention is necessary. Geisel reportedly has firmly rejected the plea for now.
mili		en given the dire economic situation, we do not believe that y intervention is imminent.
		In our view, while some officers have probably seen enough of "politics in action" and hanker for decisive leadership, most are content to wield power behind the scenes while they

	SECRET	
43	, , SECRET	2
	Most officers could probably be convinced to intervene directly only if "social chaos" erupted and civil order broke down.	2
	Presidential Elections	
	One of the military's foremost fears about the scheduled November 1989 presidential election is that Leonel Brizola, a controversial leftist long at odds with the generals, will win. The high command flexed its political muscle last spring to help ram a fifth year for Sarney through Congress. in large part to put off a Brizola candidacy.	2
	In our view, however, the declining economy has enhanced Brizola's prospects.	
	Although polling suggests that Brizola carries negative political baggage with him, he is a charismatic figure who will most likely make the run-off in the election.	
	Moreover, left-of-center parties likely to rally around him in a run-off have won key cities in last week's municipal electionseen by many observers as a preview of the presidential campaign.	2
	While reporting has been mixed indicate that the military will allow Brizola to take office if elected, but will watch his actions carefully.	2
	Brizola knows this and has been wooing the military and business groups.	2
	From an economic perspective, a Brizola presidency almost certainly would cause new headaches for Washington.	
	He would likely take unilateral radical action on the foreign debt by limiting interest payments, for example.	
	He also favors nationalizing the banking sector, and	



	SECRET	
	•	ALA/SCD/EAST
		21 November 1988
	SECRETARY CARLUCCI'S TRIP TO	BRAZII.
	cretary Carlucci arrived home yesterda	
the	s with key officials and a press confetrip include the following: In his press conference, Carlucci rei	
	the proliferation of missiles, chemic weapons. He noted continued US conce salesespecially missilesto such p but expressed US interest in cooperat technological matters under the Missi	al warfare, and nuclear rn over Brazilian arms ariah states as Libya, ing with Brazil on
	weapons. He noted continued US conce salesespecially missilesto such p but expressed US interest in cooperat	al warfare, and nuclear rn over Brazilian arms ariah states as Libya, ing with Brazil on
	the proliferation of missiles, chemic weapons. He noted continued US conce salesespecially missilesto such p but expressed US interest in cooperat technological matters under the Missi	al warfare, and nuclear rn over Brazilian arms ariah states as Libya, ing with Brazil on le Technology Control Nobrega, Carlucci lling to create a new

25**X**1

25X1

25X1

in the Sarney administration, but we have not yet received any

the military about the economic situation.

-- It is possible that the Secretary will be able to pass on

some comments this week on the current state of thinking in

reporting on the discussions.

Declassified in Part - Sanitized Copy Approved f	or Release 2012/09/19 : CIA-	RDP89G01321R000500140011-1	25X ²
			25/
	·		25X ²
		ALA/MCD/NIC	_
			25X′
		16 November 1988	
TALKI	NG POINTS FOR THE DC	I	
	<u>Nicaragua</u>		
The Fighting Sputters On			
Combat activity rem Hurricane Joan, although insurgent supporters and	ains at a low level government forces c keep guerrillas on	ontinue to arrest	
groups of insurg	indicates joint Interior operations ents and their suppo tral Nicaragua (MR 1	rters in	25X′
out an occasiona	ts remaining inside lambush, but overal contact with Sandini	l they are	05.
			25 X ′
Meanwhile the Sandinista counterin south-central Nicaragua insurgents who represent Swollen rivers and mud f efforts, however, and ma weeks.	are trying to locate the greatest threat rom Hurricane Joan a	and attack in the area. re slowing their	25X ²
weens.			238
Disputes Flare Within th	e Resistance Director	rate	
Infighting in the i intense, particularly be but a split in the movem political leaders await	ent does not appear :	and Alfredo Cesar; imminent as the	
expulsion of Ces	say Cander to the Costa Rican presser, who leads a fact ties affiliated with	ion of exiled	25X ²
movement's polit Directorate to a	sar is attempting to ical agenda by persua dopt his plan for pea bandon the military o	ading the ace talks with	
			25X ²
	TOP SECRET		25 X 1
Declassified in Part - Sanitized Copy Approved f		RDP89G01321R000500140011-1	29 /

- -- Cesar also is promoting the concept of a smaller, reorganized directorate, consisting of himself, military chief Bermudez, and Aristides Sanchez. This proposal is clearly aimed, at least in part, at removing his rivals from the insurgent leadership.
- -- Pressure will continue to build within the Directorate and an eventual split is likely unless members achieve some consensus on a long-term strategy towards the Sandinistas.

25X1

The Economy Sinks Further

Fueled by Sandinista mismanagement and last month's destructive hurricane, Nicaragua's economic problems remain intractable:

- -- Consumer price inflation may reach five figures by the end of 1988 as shortages of food and other consumer goods intensify.
- -- Purchasing power, consumer demand, and national output probably will continue to fall.
- -- Foreign exchange earnings will remain depressed, depriving the economy of many of the basic inputs it needs to function.

25X1

International relief efforts following the storm probably have fallen well short of the regime's expectations and needs, but the Sandinistas' firm grip on power is unlikely to be threatened.

- -- Cuba has provided the most relief, with the Soviet Union and Eastern Bloc countries also contributing substantial amounts of aid.
- -- The regime undoubtedly is dismayed by the tepid response of Western donors to the disaster; bilateral assistance has been largely non-financial and channeled through non-governmental organizations.
- -- Nonetheless, low public expectations and the weak position of regime opponents make it unlikely that the Sandinistas' political dominance will be challenged even if relief efforts prove inadequate. The acceleration of the economic slide, however, could spark more sporadic, and possible violent protests and food riots.

25X1

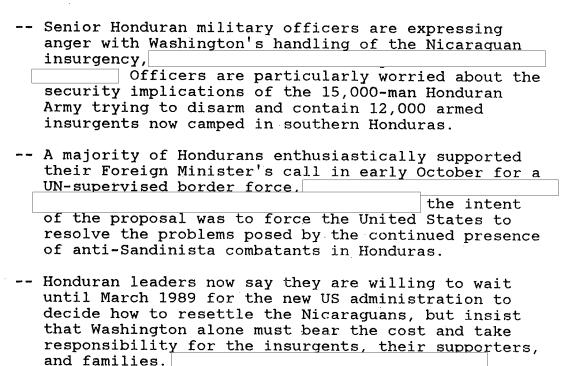
25X1

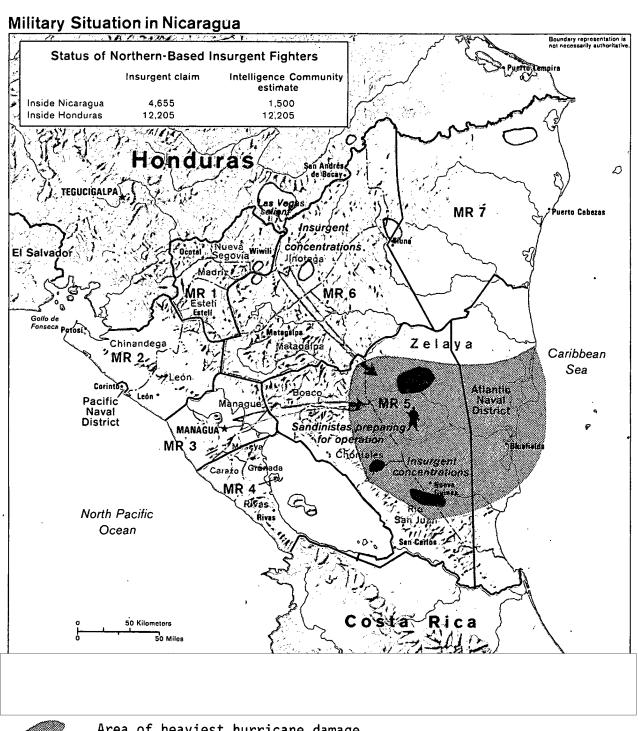
25X1

25X1

Honduran Concerns Grow

Honduras is growing weary of hosting the Nicaraguan insurgents and is pressing Washington to resettle the combatants and their families in the United States. Public opinion polls show that some 70 percent of Hondurans want the insurgents out of Honduras.





25X1